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Be Prepared: What to do

We are back with the same theme of “being prepared”. In the last column we looked at the bleak statistics indicating that a majority of business owners do not have an exit plan, and we established your need for succession planning. We also reviewed some of your options for exiting your company.

This month we’ll present a crash course in what specific preparations you can make to build value toward any ownership transfer. We will *especially* focus on the most likely option of selling your company to an outside party. If you want top-dollar for your company, NOW is the time to start polishing your enterprise for that purpose.

Long-term Planning

Start assembling your team of specialists, including your spouse, partners, attorneys, business brokers and M&A advisors, appraisers, financial planners, trust agents and accountants. Have an initial meeting with these advisors and start talking about your goals. When does selling fit into my personal goals? When in the business life cycle is the best time to sell? What do I want to achieve in a sale? How can we minimize taxes and maximize my sale proceeds? How do we find the buyer? How do we keep it confidential? All these questions and many more are ones that you and your advisors need to be asking.

Developing management depth can add significant value to your company by lessening the company’s dependence on you. A strategic or financial buyer will demand an established management structure. At this early stage, talking with your accountant about entity choices and other tax planning decisions is crucial. If you are a C-corporation and don’t plan to sell for 10 years, then consider switching to an S corporation, which could save you substantial taxes. Your advisors can creatively structure the transaction to minimize tax consequences regardless of what entity structure you have.

Financial performance obviously drives the value of your business, so make it your aim to grow revenue and net profit. Strive for stability in financial performance, as one bad year can sharply hurt the value and risk perception by buyers. This would be a good time to check on your leases and negotiate with your landlord. Are they assignable? Are they secure for several years into the future? Review your operations and procedures. Work toward documenting all your job descriptions, operation processes, and strategic plans. Buyers like systems in place that can be sustained and replicated.

Clean up your books by removing old, replaced equipment from your balance sheet, and for the larger company, get your books reviewed or audited. If you have been running your boat payment as a business expense or paying a salary to your son who is off at college, then now is the time to STOP. You must fight every tax saving instinct you have and drive every last penny to the bottom line to maximize profit. Each extra dollar that is on the bottom line could bring from two to six dollars when you sell.

The pittance you will pay in extra taxes is insignificant compared to the additional value you will realize in a sale.

Short-Term Planning:

Don't let unsalable inventory, uncollectible receivables, or employee problems muddy the waters of your company during this critical time. Deferred maintenance and peeling paint be gone! Maintenance on your equipment and facility should be current.

At this point you will want to have your company appraised by an independent, credible appraiser. This gives you a documented reference point of fair market value, which is crucial to know during negotiations. If you have real estate or a lot of equipment, it would be appropriate to have that appraised also.

I have just shared with you a dozen things that you may be able to use to add significant value to your enterprise. If you think a sale is in your future, then now is the time to start preparing to maximize your financial return on all those countless hours that you spend building your company.

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